From: Jonathan Baird [mailto:jbaird@pbmag.com]
Sent: Friday, February 22, 2019 6:07 PM
To: Comments
Subject: RE: RIN 3064-AE94

February 22, 2019

To Robert E. Feldman, Executive Secretary
Attention: Comments Regarding February 6, 2019 - Unsafe and Unsound Banking Practices: Brokered Deposits and Interest Rate Restrictions; Comment Request (RIN 3064–AE94)

Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429

Dear Mr. Feldman,

I appreciate the opportunity to comment on the issue of Brokered Deposits and the rate cap rules specifically. I'm sure my colleagues will spend a lot of time talking about the possible fallout, should multiple banks fall under the rate cap. What I would like to explain is why the methodology to determine the rate cap is hopelessly flawed.

I wrote an article to the American Banker a few months ago and made this point that seemed to resonate with many bankers and even laymen that I had the privilege of speaking with in the following days and weeks. My argument went like this: If you were setting out to determine the average cost of iPads on eBay, would it make sense to average all of the "bids" on iPads into the average cost figure? If an iPad started at $1 and there were 100 bids all the way up to $270, the average "bid" on the iPad might be $71, but would that information tell you anything about the price of iPads on eBay? In short, no it would not. Similarly, the FDIC takes in all of the "bids" for money from across the nation and averages those bids to come up with the national average price for deposits in a given term. Compounding the problem with the calculation is that big banks that have thousands of branches drag the "average bid price" for money down because each of their branches gets included in the average price. We know that goods move not at "average bid price" but at marginal prices. The iPads for sale on eBay don't move at the first or second bid at $1 or $5, but at the highest bid ($270 in my example). Unsurprisingly, money does not move at the "average bid price" that is calculated through the FDIC's methodology, but at the margins.

I am part of a small community bank and we have been fighting the battle to raise deposits for around 10 years now. About two years ago we began raising our CD rates to try and raise local money. It was not until we were paying the highest rates in the nation on a couple of terms that money really started to come through the door. While the national rate cap may seem reasonable; it's the average plus 75 basis points after all, in practice it does not work. It wasn't until we paid more than double the rate cap before money started moving to us. I hope you understand that we aren't trying to needlessly increase our cost of funds by giving sweetheart prices to people who are just looking for the highest rate they can get. Those prices are what it took to get people to move their money.

I met with some representatives of the FDIC in Washington DC a few months ago and expressed these concerns to them. I appreciated their willingness to hear us out then and I appreciate the opportunity to express these concerns now. I am hopeful that with Jelena McWilliams at the helm of the FDIC that common sense and reasonability may win the day. My personal preference would be for this rule to be totally eliminated, however many good suggestions have been made by my colleagues, including using the average of the top prices on listing services, followed closely by using the prices and terms given by the Federal Home Loan Bank as the limitation. Please feel free to reach out to me at any time for further comments.

Respectully submitted,

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